

**Testimony Before the GAO Commercial Activities Panel**

*8 August 2001*

**Prepared Remarks**

by

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**Strategic Sourcing at Crane**

**Slide 1 - Strategic Sourcing 2001**

Good morning. My name is Duane Embree. I am the Executive Director of the Naval Surface Warfare Center at Crane, Indiana, a member of the Naval Sea Systems Command. I thank you for allowing Crane the opportunity to present to you what we consider a strategic sourcing success story.

We have assembled a panel today consisting of myself; Bill Mason, president of American Federation of Government Employees Local 1415; Bob Matthews, Crane's project lead for Business & Process Reengineering (B&PR); and Captain (Sel) Frank Aucremanne, Public Works Officer at Crane. Each panel member's testimony reflects their actual experience making Strategic Sourcing a success at Crane over the last three plus years.

I will begin the panel presentation by telling you a little about Crane, why we decided to proactively pursue B&PR as part of our Strategic Sourcing plan, and share with you some high level indicators of our success.

Mr. Bill Mason will follow with a summary of our efforts from Labor's perspective. Mr. Bob Matthews will follow with details of our B&PR. And finally, CAPT(Sel) Frank Aucremanne will provide details of one of our reengineering efforts.

**Slide 2 - Crane.....A Bit About Us**

Crane began in the early 40s with a mission to produce, store, and transport Navy ordnance. Today, with over 650,000 tons of ordnance storage capacity, we still serve that mission with our primary tenant and partner, the Crane Army Ammunition Activity. Crane has evolved to a dynamic, fast-paced, high-technology acquisition and Fleet support organization serving a broad customer base; including the Navy, Marine Corps, Air Force, Army, Coast Guard, NASA, SOCOM, and other military and civilian organizations in the areas of electronics, electronic warfare, and ordnance.

Crane is geographically the second largest CONUS Navy installation with over 100 square miles, and is a national leader in protecting the environment and being a good neighbor to the surrounding communities.

Crane is the 12<sup>th</sup> largest single-site employer in the state of Indiana and the area's second largest employer with employment around 3200 Navy civilians and 60 Navy military. Our Army tenant and partner employees another 600 civilians. We have a highly professional workforce with engineers, scientists, technicians, and logisticians making up nearly 60% of our workforce. Crane management maintains a strong partnership with our union partner, AFGE. In 2000, we received the John H. Sturdivant National Partnership Award for our partnership initiatives.

Crane is a Navy Working Capital Fund activity with an annual budget of over \$800 million. We are not mission funded. Less than 2% of our funding is directly appropriated for our operation. As a Navy Working Capital Fund organization, our fiscal system is similar to the systems used in private industry. Crane's labor rates include direct salaries, benefits, and burdened overhead to fund the cost of running the base. Our labor rates include charges for all management and administration operations including facilities maintenance and modernization, as well as training and development of our people. Therefore, we have continual impetus to operate efficiently, to keep our labor rates low, and our technical capability high in order to respond to our customers' needs and budgets. We constantly monitor our overhead costs, including all base operations, for opportunities for cost reduction. Crane's customers are not mandated to use Crane, but are free to shop for best value in terms of quality, responsiveness, and cost.

### **Slide 3 - Products Supported**

Crane's technical capabilities revolve around Fleet and acquisition support of high visibility technologies and such products as pyrotechnics, electronic warfare, radar systems, special warfare weapons, ground and surface ordnance, chemical/biological detection systems, microwave devices, acoustic sensors, and small arms. Crane supports all types of Navy platforms.

**Our strategy** has always been to provide the best value to our customers at the best price while making the necessary investments in people, facilities, and equipment. The Navy emphasized that we had to cut cost to enable its Program Managers to reinvest funds in new equipments and for the ships to operate. Our requirements from the Program Managers and the Fleet did not change. We simply had to accomplish the same work, and in many cases do more work for less, or lose our work. And, finally, the Navy told us we needed to change how we supported the Fleet. We had to make sure that what we were doing was relevant to the Navy of today and the future Navy.

The Navy's approach to accomplishing these goals at that time was conducting commercial competitions using the A-76 process. So, like everyone, we headed down that path. In 1998, we had 576 Crane overhead positions announced for commercial competition. These positions encompassed a dozen or so miscellaneous functions. We realized that we could study these functions as announced and probably achieve some savings, but not accomplish the goals set by the Navy. Due to the high level of integration required across these functions we were

concerned that the A-76 approach might sub-optimize at the functional level at the expense of the corporate operation. Instead of simply sitting back and letting someone else determine our future, we proposed to the Naval Sea Systems Command (NAVSEA), our parent command, to conduct a B&PR across the entire Crane organization, including inherently governmental positions and conduct commercial competitions as appropriate using the A-76 process. This meant we had to look across our entire Crane organization to embrace change, reengineer business and processes, and aggressively work to align our workforce to match the future Navy and DOD requirements. NAVSEA assigned Crane in April 1998 as a pilot for (B&PR) with the goal of achieving the same cost savings goals expected from A-76 studies.

#### **Slide 4 - Our Strategic Goals**

In partnership with our local AFGE, we began by establishing goals in alignment with our business strategies. We agreed to conduct a top down B&PR (which was our functional assessment in strategic sourcing terms) across the entire Crane organization with the objective of not only reengineering processes but also reengineering the way we do business. Union and management agreed that to reduce our customers' costs we had to both **reduce our hourly rate** and **reduce the hours** we charge our customers to complete a task. Although reducing costs was a major element of our goals, we agreed that preserving and enhancing the Navy's core competencies and sustaining and improving quality and responsiveness to the Fleet were equally important. Bill Mason will address our union-management partnership agreement drafted as a result of these goals. Bill will give you more details about this partnership and how it has contributed to our successful reengineering efforts and insures that our people are treated fairly in the process.

#### **Slide 5- Our Approach**

Having agreed to a goal, our next step was to develop a methodology for conducting our B&PR. Arthur Andersen assisted us in developing this methodology. After conducting a high-level assessment of Crane businesses and processes, we developed this model to describe Crane (why we exist, technical functions we perform, our products and services, and the numerous support processes and their interface with all the other processes across Crane). With this as our model, we began by conducting a B&PR in functional areas supporting the entire Crane enterprise. We specifically began our B&PR in such functional areas as financial management, material management, infrastructure management (which encompasses maintenance & modernization, utilities, boiler operations, transportation, environmental management, pest control, and hazardous waste management), and information technology. These are highlighted in yellow. The areas highlighted in blue have been contracted out for some time. In a few minutes, Bob will tell you about our B&PR methodology illustrating the discipline in our B&PR efforts and share specific results from following this methodology in these areas.

#### **Slide 6 - Recurring Yearly Savings**

I am going to close my part of this panel with a couple of charts illustrating our success in achieving goals. We established goals internally in May 1998 to sustain labor rate growth below

the rate of inflation. In addition, NAVSEA established goals for Crane based on our contribution to helping NAVSEA meet the Navy's budget wedge. The blue bars on this pareto chart illustrate our internal goals while the gray area illustrates Crane's portion of the Navy's budget wedge. Today we have achieved \$18.2M of recurring yearly net savings. By FY02 we will have met our FY05 portion of the Navy's budget wedge, almost 3 years ahead of schedule. We are also on target to meet our internal goals.

### **Slide 7 - Work Year Trends**

Although I am very comfortable with the progress we are making as we reengineer Crane in specific areas, I continually focus on higher-level Crane corporate indicators. For example, from the top level down, as a Navy Working Capital Fund activity, I have to continually focus on progress in reducing the cost of our overhead support functions and insuring that our direct work year execution (which is our revenue generation) is adequate to sustain our operations. This reduction in overhead work years combined with sustaining our direct workload is enabling Crane to sustain our labor rate growth below the rate of inflation. I will point out that since FY98 we have decreased our overhead work years from 959 to 772. Our corporate measures are indicating we will continue to decrease overhead work years and finally level off in FY03 to around 700 work years. Through retraining, retirements, separation incentives, and natural attrition, we are changing the skills mix of our workforce. B&PR is enabling us to identify the required skills we will need for the future. We are hiring scientists, engineers, and technicians to support our core technical work.

### **Slide 8- Summary**

Strategic Sourcing has had a tremendous positive impact on preparing Crane for the future. We have always had a good reputation for providing our customers quality services and products on time at a competitive cost. Our B&PR efforts have enabled us to take that extra step, forcing us to review everything we do to insure technical relevance to the needs of the Fleet. Through our B&PR and strategic business planning efforts we have identified our core businesses and the key processes supporting these businesses. We have established metrics and put in place a disciplined process to review these metrics monthly and continually make improvements in both our processes. This dynamic effort has led to establishing our corporate performance management system. Since we continue to better understand our business and key processes, we now better positioned to take advantage of such Navy-wide initiatives as Enterprise Resource Planning and the Navy/Marine Corps Intranet.